VZCZCXRO2942
RR RUEHAG RUEHBC RUEHDE RUEHDF RUEHIK RUEHKUK RUEHLZ RUEHROV
DE RUEHLB #1140/01 2171825
ZNR UUUUU ZZH
R 041825Z AUG 08
FM AMEMBASSY BEIRUT
TO RUEHC/SECSTATE WASHDC 2653
INFO RUEHEE/ARAB LEAGUE COLLECTIVE
RUCNMEM/EU MEMBER STATES COLLECTIVE
RHEHAAA/NSC WASHDC
RUEATRS/DEPT OF TREASURY WASHDC
RUCPDOC/USDOC WASHDC

UNCLAS SECTION 01 OF 02 BEIRUT 001140

SENSITIVE

SIPDIS

STATE FOR NEA/ELA
STATE PASS USTR
TREASURY FOR MNUGENT AND SBLEIWEISS
USDOC FOR 4520/ITA/MAC/ONE
NSC FOR ABRAMS/SINGH/YERGER/

E.O. 12958: N/A
TAGS: ECON EFIN PREL PGOV LE
SUBJECT: LEBANON: TELECOM MINISTER STRESSES THAT ALL AGREE ON PRIVATIZATION, VOWS TO IMPROVE MOBILE COVERAGE (ECONOMIC WEEK IN REVIEW, JULY 28 - AUGUST 3, 2008)

CONTENTS

TELECOM MINISTER: ALL LEBANESE AGREE ON PRIVATIZATION,
MOBILE COVERAGE TO BE IMPROVED

¶1. (U) In a press conference on July 30, Telecom Minister Gebran Bassil stated telecom privatization is something that all Lebanese agree upon, and that close examination of the issue will take place as soon as the Cabinet's policy statement is ratified by parliament. Bassil noted that $67,000 have been allocated to improve mobile phone coverage in the north and Biq'a region along the Lebanese-Syrian border, while similar steps will be taken to improve coverage in the south. Both are low-income areas. Bassil announced that the Higher Lebanese-Syrian Council will be meeting soon to discuss Syrian interference in Lebanese mobile networks and the weak Lebanese coverage.

CONUSUMER PRICE INDEX UP BY
6.2 PERCENT IN FIRST HALF OF 2008

¶2. (U) The Central Administration of Statistics (CAS) Consumer Price Index indicated that inflation rose by nearly 6.2 percent during the first half of 2008. This was mostly attributed to increases in the prices of transportation (17.7 percent), water, electricity, and fuels (14.6 percent), restaurant and hotels (14.3 percent), food and non-alcoholic beverages (7.5 percent), health care (5.1 percent), and housing (4.8 percent).

FISCAL DEFICIT AT 27.7 PERCENT OF TOTAL
EXPENDITURES IN THE FIRST HALF OF THE YEAR

¶3. (U) According to the Ministry of Finance (MOF), the GOL's fiscal deficit reached 27.7 percent of total expenditures in the first half of 2008, compared to 29.1 percent in the same period of 2007. The MOF considers this an improvement when comparing the ratio of the overall fiscal balance to total expenditures: public revenues increased by 15.6 percent during the first half of 2008, compared to the same period in 2007. On the other hand, expenditures increased by 13.3 percent (including budgetary and treasury spending). Treasury expenditures contributed the most to the increase in total spending, which rose by 52.2 percent, due to increased transfers to the national utility company EDL and the diesel oil subsidy.

BANKS WILL FINANCE 2008 GOL DEFICIT,
DEPOSITS ON THE RISE

¶4. (SBU) Banking sources have told us that Lebanese banks will finance the GOL deficit in 2008, projected at around $2.5 billion, or ten percent of GDP. This year more than ever, banks are willing to subscribe in T-bills and Eurobonds because of their high liquidity, as well as the drop in international interest rates (LIBOR dropped by three percent). Banks don't want their profitable position to drop; they have increased their exposure to private sector lending and sovereign debt.

¶5. (SBU) At the same time, banks continue to see an increase in deposits because of confidence in the banking sector. Bank deposits rose by $6.6 billion in 2007, and are projected to increase by $8-9 billion in 2008. Thus, with bank profits and balance sheets up, banks are able to lend more to the private and public sectors.

ARAB INVESTMENTS IN LEBANON UP BY 47.5 PERCENT
IN 2007 DESPITE POLITICAL STALEMATE

¶6. (U) The Arab Investment and Export Credit Guarantee Corporation's annual report "Investment Climate in the Arab Countries" indicated that Arab investments in Lebanon rose by 47.5 percent in 2007, totaling $3.34 billion. Lebanon's share of aggregate inter-Arab investments also reached a record high of 23.8 percent in 2007, compared to a share of 13.7 percent in 2006. Lebanon was the second largest recipient of Arab capital in nominal terms among eight Arab countries covered in the report, up from fourth in 2006, which is considered significant in the context of the recent political stalemate in the country. The real estate sector received 81.2 percent of all Arab investments. While 69.9 percent of all Arab investments originated from Saudi Arabia, followed by Kuwait (21 percent), UAE (3.7 percent), and Jordan (3.3 percent).

¶7. (U) Meanwhile, Lebanese investments in Arab countries totaled $465 million in 2007, a slight decrease from $498 million in 2006. Most Lebanese investments targeted Saudi Arabia (60 percent), followed by Egypt (23.1 percent), Jordan (8.9 percent), Libya (6.7 percent), Yemen (1.2 percent), and Tunisia (0.04 percent).

TOURISTS UP BY 14.9 PERCENT
IN FIRST HALF OF 2008

¶8. (U) The number of tourists to Lebanon totaled 473,574 during the first half of 2008, up by 14.9 percent compared to the first half of
¶2007. Arab visitors accounted for 33.5 percent of the total, followed by Europe (28.2 percent), Asia (15.9 percent), the Americas (15.2 percent), Africa (3.7 percent), and Oceania (3.3 percent). Last month, former Tourism Minister Joe Sarkis expected the number of tourists in 2008 to reach between 1.3-1.6 million.

CITIGROUP: LEBANESE ECONOMY REMAINS ROBUST,
PUBLIC DEBT BIGGEST CHALLENGE

¶9. (U) In its first report on Lebanon following the Doha Conference, Citigroup indicated that the Lebanese economy has been surprisingly

robust despite a series of political shocks since 2005. The formation of a new cabinet was welcomed, although its short duration will not allow it to take important political and economic decisions. Citigroup considered the high level of public debt as the biggest challenge facing Lebanon, while below-potential growth in recent years and a modest privatization record have not been supportive of a debt reduction strategy. However, it considered Lebanon's debt exposure as less of a concern given a base of committed investors, robust deposit growth in the banking sector, and foreign interest in the real estate sector. According to Citigroup, the sale of the mobile phone licenses could bring more than $7 billion, allowing the GOL to retire more than half of its market debt in one shot.

BEIRUT RANKS 80 OUT OF 143 MOST
EXPENSIVE CITIES WORLDWIDE

¶10. (U) According to Mercer Human Resource Consulting annual cost of living survey, Beirut ranked 80 out of 143 most expensive cities in the world in 2008, down from 63 in 2007. Beirut also ranked 7 out of 15 most expensive MENA cities in 2008, as compared to 5 in 2007. The survey noted that since Beirut is compared with New York City, in which the cost of living has increased greatly relative to Beirut, the score for Beirut declined; also cities using the Euro have jumped significantly in the rankings because of the strengthening of the Euro against the Dollar. The survey measures the comparative cost of over 200 items in each location, with New York City as a benchmark.

GRANT